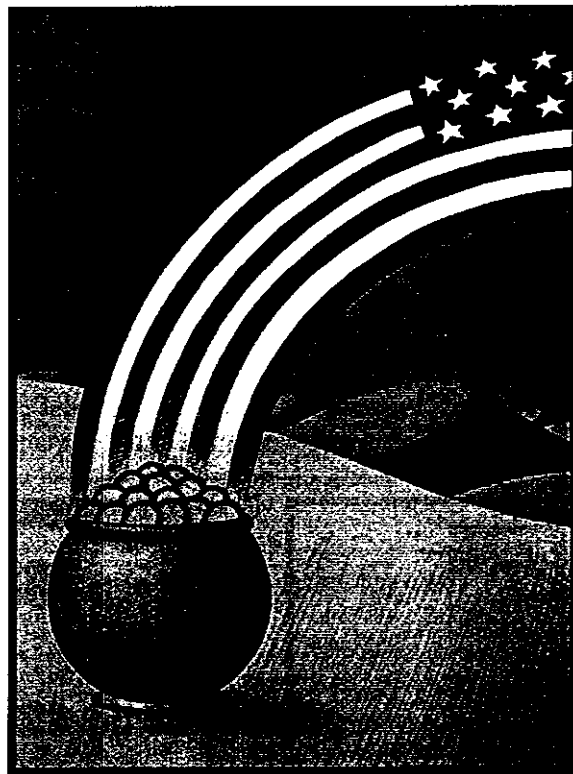


FOCUS ON USAID

AMERICA'S DEVELOPMENT CHALLENGE



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PRESIDENT BUSH'S NEW COMPACT FOR DEVELOPMENT IS THE FIRST MAJOR NEW FOREIGN ASSISTANCE INITIATIVE IN OVER 40 YEARS. USAID ADMINISTRATOR ANDREW NATSIOS EXPLAINS IT.

BY ANDREW S. NATSIOS

n June 5, 1947, Secretary of State George C. Marshall gave a speech at Harvard College that set the nations of Western Europe on the road to economic recovery and political integration. In the process, the United States abandoned the isolationism that had been our peacetime policy since independence and embarked upon the path of international engagement we have maintained ever since.

In his remarks, Marshall cited the "hunger, poverty, desperation and chaos" that threatened the nations of post-war Europe, and called on the people of the United States to "face up to the vast responsibility that history has

clearly placed upon our country."

"The truth of the matter is that Europe's requirements for the next three or four years ... are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character," he said.

Thus began the Marshall Plan, the most successful foreign assistance program in history. While most Americans are familiar with the aid that we furnished, and the remarkable use Europe made of it, the demands we placed on the Europeans before they could get it are often overlooked. But Marshall was specific about them from the beginning:

"There must be some agreement among the countries of Europe as to the requirements of the situation and the part the countries themselves will take," he stated clearly. "It would be neither fitting nor efficacious for this government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. ... The initiative, I think, must come from Europe." Thus, Marshall determined that obtaining European ownership was a critical component of its own development.

From the very beginning, then, the Marshall Plan was a bargain, an agreement between the United States and the Europeans about the economic and political reforms they needed to make before they could get our assistance. Given their history, coordinating their own reconstruction efforts proved difficult for the Europeans. But soon the benefits — to Europe and the United States — became abundantly clear to everyone. There is no question that the prosperous, stable, democratic Europe we take for granted today owes much to the process the Marshall Plan began.

The New Compact for Development

Today, the United States is once again launching a major new foreign assistance initiative, one whose significance may one day rival that of the Marshall Plan. I refer to President Bush's New Compact for

Andrew Natsios is the administrator of the U.S. Agency for International Development.

Like the Marshall Plan, the Millennium Challenge Account is an incentive- based approach to foreign assistance.

Development, unveiled in Washington, D.C. and Monterrey, Mexico, this past March.

Only three times since World War II has a president gone to the American people and introduced a new foreign assistance program. Each has been issued in times of peril, and each time the president explained his reasons in terms of compassion and national security.

The first was in March 1947, three months before Marshall's historic speech, when President Harry S. Truman warned of the grave threats facing Greece and Turkey. The second was at the height of the Cold War, when President John F. Kennedy launched the Alliance for Progress in March 1961. Soon he would follow this initiative by creating the U.S. Agency for International Development. The third such time was this past March 14, when President Bush announced as a key component of his new development compact, the Millennium Challenge Account (MCA).

Why, after years of relatively flat budgets, would the president propose a new account, one that will amount to five billion dollars a year by Fiscal Year 2006? There are several reasons:

First, our country maintains a long tradition of fighting poverty and helping those in need. "As a nation founded on the dignity and value of every life, America's heart breaks because of the suffering and senseless death we see in our world," President Bush said. Poverty casts "a dark shadow across a world that is increasingly illuminated by opportunity. Half the world's people still live on less than \$2 a day. For billions, especially in Africa and the Islamic world, poverty is spreading and per capita income is falling."

Second is the relationship between poverty and national security, a relationship that the events of Sept. 11 have underscored and one that has been duly noted by the president. "In Afghanistan," he stated, "persistent poverty and war and chaos created conditions that allowed a terrorist regime to seize power. And in many other states around the world, poverty prevents governments from controlling their borders, policing their territory, and enforcing their laws."

The third reason is that our foreign assistance has not produced the results we would like. Indeed, we are not

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alone as our fellow donor nations and the multilateral development banks we support have also failed to produce enough measurable successes for the resources we've expended in the developing world. There is no substitute for good governance and holding developing nations accountable for their own development success. Thus, a new commitment with a new approach was required.

Reforming USAID

Improving that record is my single highest priority as USAID administrator and it remains a top commitment of Secretary Powell as well. To achieve this objective we began by reforming USAID from the top down:

- We have implemented a new management structure with both a functional and geographic matrix.
- We created four new pillar bureaus, giving our programs a tighter focus with both performance measurement and management-for-results as key components of our new approach.
- We have formed a new "Business Transformation Committee" composed of senior USAID managers and newly-arrived appointees to identify better ways of doing our development business and implementing those changes quickly and effectively throughout the organization.
- We are strongly promoting trade and economic growth as the real engines of development and giving new emphasis to agriculture; after all, three-fourths of the people in the developing world live in rural areas.
- USAID is also now spending more money in the field, where it matters, and less in Washington.
- We are building new alliances with a host of private sector partners, pooling our experience with their energy, ideas and financial resources. Indeed, there is no copyright on good development and in many cases private voluntary organizations, non-governmental organizations and the private sector can do a better job.
- We are designing programs that offer incentives and demand new levels of accountability from the developing countries with whom we work.

Still, more needs to be done. As the president observed, "many of the old models of economic development assistance are outdated. ... The needs of the developing world demand a new approach." At USAID we are heeding that call.

The Millennium Challenge Account

The heart of this new approach is an emphasis on holding governments accountable for the policies they pursue. Like the Marshall Plan, the MCA begins with a bargain. As the president put it, countries that wish to take advantage of our generosity need to "adopt the reforms and policies that make development effective and lasting." In short, it is an incentive-based approach.

Over the last 40 years at USAID we have learned that there are three essential building blocks to successful development and they are the foundation of the new MCA. The funds in the Millennium Challenge Account will be distributed to developing countries that demonstrate a strong commitment toward:

- **Good governance.** President Bush has stated that "good government is the essential condition of development. Rooting out corruption, upholding human rights, and adherence to the rule of law are essential conditions for successful development.
- **Investing in their people through health care and education.** Healthy and educated citizens are the agents of development, so we will reward nations that invest in better health care, better schools and broader immunization. Indeed, developing nations need to build the capacities for sustainable development.
- **Sound economic policies** that foster sustained economic growth through enterprise and entrepreneurship. More open markets, sustainable budget policies, environmental stewardship and strong support for individual entrepreneurship all unleash the enterprise and creativity for lasting growth and prosperity.

Let me add here that while the general outlines of the MCA are quite clear, discussions are still under way about the criteria that will be used to determine which countries will be eligible for MCA funding.

Why Countries Fail to Develop

When I was obtaining my master's degree at Harvard's Kennedy School, there were two basic schools of thought about public administration. The first — the quantitative analysis school — relied heavily on mathematical models and economic analysis to decide the proper public policy decision in a given circumstance. While this approach was interesting, people could seldom use it. After finishing school, they would return to the government agencies or ministries where

they worked and immediately be confronted with the same political realities that were there when they left. Public policy in the real world is not decided through mathematical formulas: politics always intervenes.

The second school of thought relied on political or "stakeholder" analysis. This looks at a given question from the point of view of the people who have a vested interest in the outcome. As someone who has spent much of his adult life in government at the state, national and international level, I find it hard to believe that anyone still dismisses this approach. Without understanding whose interests are at stake and how these interests are brought to bear on the people who make decisions, one simply cannot understand why countries make the choices that they do.

There are reasons why many developing countries have failed to raise the living standards of their citizens despite receiving millions of dollars in outside assistance. Invariably, there are vested interests, economic and political oligarchies that exploit the economic and political weakness of the state and profit from people's lack of political power and human rights. In short, there is no sustainable constituency for reform.

The solution is to identify reformers, agents of change whom we can support so that they can compete with these vested interests for the good of their people. At the same time, we are looking to create competition among countries for our development dollars. The new resources the MCA will make available — five billion dollars a year — will be a powerful incentive to encourage them. During this process, we will work closely with Congress to build a sustainable model of successful development.

We expect that only a relatively small number of countries will be selected for MCA funding at the beginning, so those that do can expect a substantial reward. In the meantime, we are refashioning our mandate in USAID for non-MCA countries, to focus on helping these nations qualify for MCA at some point in the future. In fact, MCA is quickly becoming a way for us to reform how we provide development assistance.

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Still, there are predatory governments that put little stock in the well-being of their people. Not surprisingly, they have little to show for the foreign assistance they have received. The fact is that until they change, there is little we can do to help them, except through our emergency or humanitarian programs.

The Foreign Service Component

There are those in the development community and Congress who believe that all that is needed for development to be successful is to throw money at it. This is nonsense. It defies history and it defies the lessons we have learned about the way countries grow and develop. It ignores the uses to which development money is put and the negative effects of corruption, incompetence and ill-conceived policy choices. And it begs the entire question of accountability, performance assessment and sound management.

President Bush's New Compact for Development will take money, but official development assistance is hardly the only source for it. As the president stated when he announced the Millennium Challenge Account, "most funds for development do not come from international aid. They come from domestic capital, from foreign investment, and especially from trade. ... Trade is the engine of development, and by promoting it, we will help meet the needs of the world's poor."

The MCA is one of the most exciting new developments in the field of foreign assistance in many years. It promises a 50-percent increase in the resources this country will devote to fighting poverty, disease and weak or corrupt governance. And most importantly, it promises a more effective approach, one that emphasizes accountability and sound policy.

USAID has long benefited from the expertise, the ideas and the diligence of the Foreign Service community and we look forward to continuing our collaboration as the details of the MCA become more clear. But already we know that the opportunity to effect real, substantive change in the developing world has never been brighter. With development, defense and diplomacy as key components of our national security strategy, we will make those opportunities a reality. ■